

MONTGOMERY VILLAGE FOUNDATION, INC.
Audit Committee Meeting Agenda
October 3, 2017
****North Creek CC Board Room****
7:00 PM

Open Session

1. Residents' Time
2. Chairman's Remarks
3. Review and approve minutes from the August meetings (enclosures)
 - a. 8/15/17 Work session
 - b. 8/24/17 Budget presentation
4. Review Financial Policies (enclosures)
 - a. Operating Disbursement Policy
 - b. Reserve Disbursement Policy
 - c. Asset Capitalization & Depreciation
 - d. Collection Policy
5. Other business

MINUTES OF MEETING
MONTGOMERY VILLAGE FOUNDATION

Audit Committee

August 15, 2017

A work session of the Montgomery Village Foundation Audit Committee was held at 7:00 p.m. on Tuesday, August 15, 2017 at the North Creek Community Center, Montgomery Village, Maryland.

Members Present

Keith Silliman, Vice Chair
Robert Carey, Treasurer
Beth-Ellen Berry
Frank Mondell
Pat Seery
Barbara St. John
Pam Bort, Board Liaison

Members Absent

Ellen Gaston

Others Present

Greg Snellings, MVF Chief Financial Officer
Daniel Salazar, Senior Accountant
Jennifer Thornett, Recording Secretary

Budget Work Session

Mr. Silliman called the work session to order at 7:00 p.m.

Ms. St. John asked why the budget calls for a small increase when there is a significant undesignated reserves balance. She noted that the Executive Vice President does a great job of staying on budget and questioned whether it was necessary. Mr. Snellings explained that the calculations are based on current figures and by the time they have nine months of expenses they may not need to increase the assessment. He added that they implemented a five-year plan to manage assessment increases so they do not have to do a large increase one year to get back on track. Mr. Snellings noted that some of the undesignated reserves is allocated to future years since they are managing it over a five-year horizon. Mr. Mondell agreed that there is a benefit to increasing the assessments at a more constant pace.

Mr. Snellings reviewed each section of the budget book and highlighted items as necessary. He noted that the Undesignated Reserves Summary (page 1) shows the projected use for 2018, including minimizing MVF assessment increases, subsidizing user fee camp programs, and special projects. In response to a question from the Committee, Mr. Snellings noted that they no longer include allowance for bad debt; however, bad debt expense is included under Financial & Legal Expense.

Mr. Snellings noted that personnel costs for 2018 (page 18) include a 3.25% salary pool, not 3.5% as noted. He added that it includes a 3% merit increase and .25% for discretionary.

There was discussion regarding the capital contribution fee (CCF) and operating capital budget (page 53). Mr. Mondale asked if the CCF will apply to the original sale of the golf course properties. Mr. Snellings reported that an agreement is not in place yet. He added that Monument Realty is focused on getting the project through the county. Ms. Berry asked why they are requesting \$100k for pool enhancements in 2018 when the next pool renovation is not scheduled until 2019 or 2020. Mr. Snellings responded that the \$100,000 will technically not be spent in 2018 but will flow into DU Undesignated where it can be used in 2019/20 for the North Creek pool renovation. Ms. Berry suggested that they just increase the contribution to reserves by \$100k. Mr. Snellings agreed that it is effectively what they are doing but noted that it may be a better way to budget for the expense. Mr. Snellings also noted that the \$127k capital requested for the DU Fund plus the annual capitalization of \$5k for the solar panels at Lake Marion equals the proposed budget for investment in property and equipment on page 5.

Mr. Silliman noted that the capital requested for the CCF is for an electronic sign at the entrance and asked where the sign will be located. Mr. Snellings reported that the Board discussed the electronic sign at the Board retreat and plan to use it to advertise events in a highly visible location to both drivers and pedestrians; the exact location is to be determined.

Mr. Seery noted that the total reserve expenditures do not match when broken out by fund and category (page 63). Mr. Snellings noted that he will adjust the figures and send out updated pages. He added that he broke down reserve expenditures into necessary and potential categories on page 65. Mr. Snellings noted that he will discuss best practices with the reserve advisor to determine if it is necessary to have 75% of projected expenses at 30 years as is stated in the current policy. It was noted that it is difficult to read the dates along the axis of the graph.

Ms. Snellings noted that page 80 summarizes the detailed goals of the strategic plan.

Mr. Seery suggested that they include more detailed information regarding the expected return on investments. Mr. Snellings reported that the portfolio returned 4.4% last year, which was ahead of benchmarks. He added that the majority of the portfolio is still fixed income and they are projecting a return of 3.5% for 2018. Mr. Silliman recommended they include the projected return on investment in the assumptions for the five-year plan.

Mr. Seery noted that the Board continues to spend money to renovate pools when the average age in the community is increasing and more residents are on fixed incomes. He added that the average number of people in a household is different compared to 20 years ago. Mr. Seery noted that the Board should consider how Montgomery Village compares to other planned communities. He added that Mr. Snellings prepared an excellent presentation.

In response to a question from the Committee, Mr. Snellings explained that user fees have struggled for the last 3-4 years as they compete with county programs that are offered at a reduced cost. He noted that Duncan Mullis was hired as the new Director of Recreation, Parks and Culture and he will work with him to restructure the user fee fund as necessary.

The Committee noted that it was an outstanding presentation put together by Mr. Snellings and his team.

Adjournment

There being no further business, the work session was adjourned at 8:56 p.m. The report, authorizations and other documents presented at the meeting have been initialed for identification and attached hereto or filed in the offices at the Montgomery Village Foundation.



Jennifer Thornett
Recording Secretary

**MINUTES OF JOINT MEETING
MONTGOMERY VILLAGE FOUNDATION
Board of Directors and Audit Committee**

August 24, 2017

A joint meeting of the Montgomery Village Foundation Board of Directors and Audit Committee was held at 7:00 p.m. on Thursday, August 24, 2017 at the Stedwick Community Center, Montgomery Village, Maryland.

Directors Present

Pete Young, President
Glenn Gargan, Vice President
Scott Dyer
Laura Franke
Tammy Holloway
Jim Marsh
Peter Webb

Audit Committee Members Present

Keith Silliman, Vice Chair
Frank Mondell
Pat Seery
Bob Carey, Treasurer

Others Present

David Humpton, Executive Vice President
Michael Conroy, Assistant Executive Vice President
Greg Snellings, Chief Financial Officer
Daniel Salazar, Senior Accountant
Duncan Mullis, Director of Recreation, Parks and Culture
Diane Stasiewicz, Director of Architectural Standards
Jennifer Thornett, Recording Secretary
4 Residents or interested parties

Presentation of 2018 Draft Budget

Mr. Humpton noted that it was a team effort by all staff to prepare the 2018 draft budget. He highlighted significant goals which include keeping assessments low and in sync with the 5-year plan, funding major capital projects and reserves projects (per the reserve schedule), and funding staff positions to support current future/programs.

Mr. Snellings noted that this is the tenth budget he has prepared and highlighted major accomplishments such as the Long Range Facilities Planning Committee, pool study and Vision 2030. He added that the Compounded Annual Growth Rate (CAGR) in the last ten years for the MVF Fund assessment is .68% and the DU Fund assessment is 4.04%. Mr. Snellings explained

that they have not had to raise assessments significantly; therefore, the CAGR for revenue is only 0.59%. He added that there was a deficit balances in the Operating Fund and a significant loan from the Reserve Fund ten years ago. Mr. Snellings reported that the Capital Contribution Fee (CCF) has generated \$859,866 since 2012. He added that reserves have increased 50% even with major projects such as the Lawn Theater, the Lake Whetstone dock and the renovations of Whetstone and Apple Ridge pools.

For the 2018 budget, Mr. Snellings reported that the proposed assessment increases are lower than the 2017 5-year plan estimate. To keep MVF assessment increases as low as possible, the 2016 planned undesignated that was not used will be rolled over to 2018. Mr. Snellings explained that they will make a final recommendation regarding assessment increases in October based on nine months of results. He noted the reserve study assumptions were updated to include a return of 3.5% and the consumer price index (CPI) at 2.2%. Mr. Snellings reported the proposed contribution to reserves includes \$100,000 for the "new" portion of future renovations via the Operating Fund. He noted it was recommended at the Audit Committee's budget work session to include it in the reserves rather than operating capital. Mr. Snellings added that the 2018 planned expenditure for the CCF is \$100,000 for a digital entrance sign.

Mr. Snellings reported that the total proposed assessment increase is 3.1%. He added that planned use for undesignated reserves in 2018 is \$371,876, which will be used to minimize MVF assessment increase, subsidize user fee camp programs and complete the homeowner document scan project. Mr. Snellings highlighted the revenue drivers and noted that they anticipate a decline in collections fee income and *Village News* advertising. He added that he was not as conservative with the CCF estimate as in past years. Mr. Snellings reported that personnel costs include a 3% merit increase and .25% discretionary pool and a 6.5% increase in the flex money benefit to offset the expected increase for healthcare costs of 12-14% for 2018. He added that DU summer wages are decreased slightly to be in line with the minimum wage and two new full-time Park/Facilities assistants will be hired.

Mr. Snellings presented a comparison of the 2017 and 2018 budgets for both the MVF Fund and DU. He noted that no capital projects are slated for the MVF Fund because they will use the CCF for the addition of the digital entrance sign. Mr. Snellings added that the DU includes a capital request of \$27,000 for new PA systems at the Apple Ridge pool and North

Creek Board Room, as well as new chairs, lounges, picnic tables, umbrellas and a coolbrella. He noted that the CCF balance remaining after 2018 is \$50,000 more than the available balance at the beginning of the year.

In response to a question from the Board, Mr. Snellings reported that the proposed \$0.55 increase in the MVF assessment would generate \$75,000 in revenue. He reiterated that they will make a final recommendation in October once they have nine months of data. Mr. Young asked if there were any substantive changes to the budget as a result of the Audit Committee budget work session. Mr. Snellings reported that the only change was to the \$100,000 now listed as a contribution to reserves for future pool enhancements. Mr. Silliman noted that Mr. Seery suggested that they include a summary of the investment revenue projected for the reserve portfolio as part of the 5-year plan. Mr. Young noted that the calculation is included in the reserve study and added that they can make it more apparent in the budget document.

Mr. Snellings reviewed the planned contributions and assumptions for the reserves. He noted the Board will consider a recommendation from the Investment Committee to expand the range and target for equities in order to allow equities to appreciate. Mr. Snellings reviewed the planned expenditures for 2018 and broke them down into necessary vs. potential expenditures. He noted that 2018 major replacements from MVF include the replacement of the Hurley Park play area and the South Valley Park football field restoration and goal posts and office equipment and technology; the 2018 major replacements from DU include general repairs and maintenance to community centers and general repairs to pools. Mr. Snellings reported that they will consider the rebuild of the North Creek pool in 2019. He added that the DU reserve account balance does not grow until 2034 when all pool renovations are completed.

Mr. Young asked if the budget includes the total reserve expenditures or only the necessary expenditures. Mr. Snellings noted that the budget includes the total amount. He added that the reserve study is based on expected life, but assets may last longer. Mr. Snellings reported that they will consider what projects can be deferred for a year or two and send the information to the reserve study analyst to make life adjustments to the original entry in the study.

Mr. Snellings reviewed the 5-year plan. He noted the MVF assessment ceiling was set at \$24.29 in 2011 to get through 2014; however, based on the Plan an increase may not be needed

until 2021. He added that the decreases in both assessments noted in years 2021 and 2022 are associated with new units being added to the MVF from the current development projects.

Call Meeting to Order

Mr. Silliman opened the Audit Committee portion of the meeting at 7:59 p.m.

Recommendation to the MVF Board for the Audit Committee Chair

Mr. Mondell moved to recommend to the MVF Board that Pat Seery serve as Audit Committee Chair. The motion was seconded and passed unanimously.

Audit Committee: Consider recommending 2018 draft budget to the MVF Board for publication and public comment

Mr. Mondell moved to recommend to the MVF Board that the 2018 draft budget be published in the *Village News* for comment. The motion was seconded and passed unanimously.

Mr. Mondell referred to the historical assessment rates and commended Mr. Humpton and Mr. Snellings for righting the ship. He noted that the breakdown of budgeted reserve expenditures as necessary vs. potential is very helpful. Mr. Mondell added that the entire budget package is a phenomenal picture of stability and is a credit to what Mr. Humpton and Mr. Snellings have done with the MVF.

Adjournment

Mr. Seery moved to adjourn the meeting at 8:07 p.m. The motion was seconded and passed unanimously.

There being no further business, the Audit Committee portion of the meeting was adjourned at 8:07 p.m., with the regular Board meeting following immediately.



Jennifer Thornett
Recording Secretary

Motion List
Audit Committee
August 24, 2017

1. Mr. Mondell moved to recommend to the MVF Board that Pat Seery serve as Audit Committee Chair. The motion was seconded and passed unanimously.
2. Mr. Mondell moved to recommend to the MVF Board that the 2018 draft budget be published in the *Village News* for comment. The motion was seconded and passed unanimously.
3. Mr. Seery moved to adjourn the meeting at 8:07 p.m. The motion was seconded and passed unanimously.

MONTGOMERY VILLAGE FOUNDATION INC.

OPERATING DISBURSEMENTS POLICY

I. Purpose

The purpose of the Operating Disbursements Policy is to establish the process, approval and payment criteria for which the procurement of goods and services must follow. The policy will follow a tiered structure beginning with expenditures requiring a check request, then a purchase order and finally those that will need a request for proposal (e.g. bid) prepared.

II. Definitions

Emergency Expenditures - An emergency expenditure is defined as the need for a product and/or service which without the expenditure endangers life or property or forces closure of a Foundation facility.

Goods – Any tangible product including computer software.

Services – Labor or professional services to be performed whether from the application of physical or intellectual skills.

Disclosure/Conflict of Interest - the circumstance when an individuals' personal interests might benefit from his or her official actions or influence over the outcome of a decision.

III. Disbursement Policy

Expense Amount	Document Required	Bid Required	Approval Needed
\$0 - \$1,000	Check Request	N/A	Department Head
\$1,001 - \$5,000	Purchase Order	Informal	EVP
\$5,001 - \$11,000	Purchase Order	Competitive	EVP
\$11,001+	Purchase Order	Competitive	MVF Board

Informal Bids – Purchases of goods or services of at least \$1,000 and not exceeding \$5,000 must receive at least 2 written quotes. Multiple purchases within a 60 day period from the same vendor for essentially the same products/services which are under the \$1,000 threshold shall be viewed as 1 purchase for purposes of this policy. Quotes can consist of, but are not limited to, internet advertisements, faxes, and emails.

Competitive Bids: Bids for the purchase of good and services in excess of \$5,000 must be obtained for all individual planned expenditures with the following exceptions:

MONTGOMERY VILLAGE FOUNDATION INC.

OPERATING DISURSEMENTS POLICY

Competitive bids where the total cost of all goods and services related to the project exceeds \$50,000, must be advertised via a Washington metropolitan area professional publication for a minimum of 2 weeks prior to the bid close date.

Competitive Bids awarded for the purchase of operating supplies are not required to be re-bid for each individual purchase during the calendar year provided the same terms apply to each subsequent purchase. For example, mulch and other landscaping materials, salt, chlorine and other pool chemicals, etc. **All subsequent purchases MUST be approved by the EVP via a new purchase order.**

- a. **Bid Exceptions (reviewed by MVF management annually)**
 - **Legal services**
 - **Consulting and brokerage services**
 - **MVF internal maintenance projects as more fully outlined in the section “Guide for selecting the Maintenance Department”**
 - **Maintenance or Community Management 3rd party billable 3rd party expenses**
 - **Emergency expenditures with the verbal authorization from the MVF Board President (or temporary delegate). After the emergency, the EVP will provide appropriate documentation**
 - **Other as approved by the MVF Board.**
- b. **Multi-year bid/contracts:** Bids approved which include multi-year terms or additional optional periods that were previously approved are NOT required to be re-bid within the contract term. E.g. services for security, audit, pest control, utility and communications.
- c. **Bid Rejection**
 - MVF reserves the right to reject any and all bids for any reason and at any time during the bid process.
 - MVF will not be held responsible for any costs incurred by the bidder for the preparation or presentation of a bid unless specifically stated, in writing, as part of the bid requirements.
 - The Board or Executive Vice President can reject all bids and direct staff to go back to any and/or all bidders to ask them to modify their bid when deemed in the best interest of MVF.
 - MVF reserves the right to pursue new bids if no bids are accepted.

**MONTGOMERY VILLAGE FOUNDATION, INC.
RESERVE DISBURSEMENT POLICY**

4b

I. Purpose

Circa 1994, a reserve study was developed for assets owned by the Foundation. The purpose of the study was to determine an appropriate amount of money to set aside each year for the future repair/replacement of assets as they were needed, rather than having to take the full brunt of the cost replacing the asset against the current year operating budget.

With a Board directed goal of funding its Reserves at 75% of the projected value 30 years into the future, a contribution to the reserve fund is recommended and approved via the annual Operating Fund budget each year. The policy sets the criteria for which these contributions can be spent.

III. Policy

The Reserve Fund shall be responsible for financing the payment of all expenditures meeting the following criteria:

- Items included in the Reserve section of the current budget and previously approved items that were not completed during the budget period in which they were approved,
- Items included in the current Reserve inventory which have failed or are in need of being replaced but were not included in the current reserve budget,
- Items approved by the MVF Board of Directors regardless of their inclusion in any budget or reserve inventory.

If the expenditure does not meet the aforementioned criteria, it should be funded by one of the sub-funds that comprise the MVF Operating Fund.

Note: Reserve items will also follow the Asset Capitalization policy thus may be capitalized or expensed as appropriate.

**MONTGOMERY VILLAGE FOUNDATION, INC.
ASSET CAPITALIZATION & DEPRECIATION POLICY**

4c

I. Purpose

To establish guidelines for the proper accounting classification of expenditures—capital v. operating, asset category, capitalization thresholds, and depreciation methodologies.

II. Definitions

Capital Asset – real or personal property that has an acquisition cost equal to or greater than \$1,000 and an estimated useful life of one (1) year or greater. Capital assets must be capitalized, meaning to record the property in the accounting records as assets. Capital assets may be purchased, donated or constructed.

- Real Property:
 1. Land and land improvements (not depreciated)
 2. Building and building improvements
 3. Improvements other than buildings (e.g. storm water, lake, etc.)
 4. Infrastructure
 5. Leasehold improvements
 6. Construction work in progress (not depreciated)

- Personal Property
 1. Furniture & Fixtures
 2. Office Equipment
 3. IT Equipment
 4. Vehicles and other licensed vehicles
 5. Public works equipment (non licensed, motorized vehicles)
 6. Other non motorized or recreational equipment
 7. Software

Enhancements – are generally capital asset component parts that when added to an asset, enhance the life and capabilities of the existing item.

Operating Expense – purchases not meeting the definition of a Capital Asset are deemed annual operating expenses and should be charged against revenue for the current operating year and in the Fund which encumbered the expenditure when the expense was incurred.

Repairs/maintenance – are generally operating expenses related to putting an asset back into normal or expected operating service or giving the asset the ability to meet its originally intended life. Maintenance keeps an asset in normal or expected operating condition. E.g. repairing an HVAC system, paint, roof repairs, miscellaneous pool repairs such as caulking, chemicals, etc.

Depreciation – the expensing of an asset's acquisition cost over the estimated useful life.

III. Standard Asset Lives

Class of Asset (Real Property)	Standard Life
Land & land improvements	Infinite
Buildings/improvements, general	30 years
- Temporary buildings	10 years or estimated useful life
- non building/component improvements	10-30 years or estimated useful life
Infrastructure (pool related repairs, pool improvements, parking lot/sidewalk asphalt & concrete, etc.)	15 – 30 years
Leasehold improvements	10 years or term of the lease
Construction work in progress	n/a

Class of Asset (Personal Property)	Standard Life
Furniture & fixtures	7 years
Office Equipment	5 years
IT equipment	3 years
Vehicles (licensed)	5 years
Other non licensed vehicles	5 years
Software	3 years

IV. Depreciation Policy

MVF's Depreciation policy shall be determined based on the asset's useful life.

- All depreciable assets shall be amortized over their useful life.
- MVF uses the straight-line depreciation method for all asset types

**COLLECTION POLICY OF
MONTGOMERY VILLAGE FOUNDATION, INC.
FOR HOMES CORPORATIONS**

Purpose: This policy will be followed when collecting all debts owed to the Montgomery Village Foundation, including but not limited to assessments, the capital contribution fee, architectural review fees, and returned checks.

Due Dates: Homeowners may choose to pay their assessment either annually or quarterly (four times per year).

- An annual assessment payment is due in full on January 1 of each year. If payment in full is not received by the last day of January, the homeowner's account will be established on a quarterly payment plan.
- Installments for quarterly assessment payments are due on the first day of January, April, July, and October.

Payment coupons are mailed to property owners each December. Property owners who do not receive coupons via regular mail by December 31 should call MVF at 301-948-0110 to request replacement coupons. **Failure to receive a coupon booklet does not relieve a homeowner of the obligation to pay the required assessment when due.**

Methods of Payment:

- **Cash** payments must be made at the MVF office, 10120 Apple Ridge Road. Office hours are Monday through Friday, 8:30AM -5:00PM.
- **Checks** payable to MVF should be mailed with a coupon to **PO Box 67900, Phoenix, AZ 85082-7900**. Checks **MUST** be mailed early enough to arrive on or before the due date.
- **Visa, MasterCard, Discover and American Express** payments may be made online at www.montgomeryvillage.com or www.mutualofomahabank.com. A credit card processing fee will apply.
- **Direct Debit payments** will be automatically processed if a resident is currently set up for the MVF direct debit program.
- **Only** cash, credit card, certified check, or money orders will be accepted as payment for all returned payments.
- **Other Charges:** If a check, ACH transfer, credit card charge or online billpay is refused, returned for insufficient funds or payment is stopped, a \$35.00 charge will be assessed to the homeowner's account.

Payments that are being made on an account in bankruptcy, under judgment, or to stop or satisfy a lawsuit, must be made at the MVF office.

Delinquent Accounts, Cost of Collections and Fees:

Any assessment that has not been paid by the last day of the first month of the quarter is considered delinquent. A statement with coupon will be sent to property owners during the first week of the second month of the quarter which will include a \$25.00 cost of collections fee.

Acceleration Related to Lawsuits or Liens: If the quarterly payment is not received by the last day of the first month of the quarter, the entire balance of the annual assessment becomes due and payable immediately.

Activity Cards and Validation Stickers: If an assessment account is not a zero balance as of April 30 in any year, beginning May 1 payment of any prior balance as well as the full assessment amount through the end of the current fiscal year must be received as a condition for issuance of an activity card or validation sticker.

Interest on Delinquent Accounts: Interest will accrue at a rate of 6% per annum on the delinquent account.

Notices provided by MVF:

- **Coupons** – mailed each December.
- **Statement With Coupon** – Will be sent to homeowners whose quarterly payments are delinquent at the end of the first month of a quarter.
- **Delinquent Letter** – Will be sent to homeowners whose quarterly payments are unpaid at the end of the second month of a quarter. This notice will inform the homeowner that:
 - Interest at 6% per annum is being applied to the delinquent account.
 - If a lawsuit is filed the entire annual assessment is accelerated and becomes due and payable immediately.

Failure to receive any or all of these notices does not relieve a homeowner of the obligation to pay the required assessment and any related cost of collections.

Collection Fees: If a lawsuit or lien is filed, the homeowner will be assessed fees based on MVF's collection procedures. These fees include, but are not limited to, lawsuit preparation and filing, lien preparation and filing, court filing fees, attorney fees, process server fees and recording fees. The amount of these fees is determined at the time of the action and is based on the fee charged by the entity providing the service.

The aforementioned fees and related cost of collections fees and interest shall be posted to the homeowner's account and collected in the same manner as assessments and will appear on the past due statement mailed to the homeowner.

Waivers: Requests to waive cost of collections fees must be made in writing to the Assessments and Collections Administrator and must state specific circumstances as to why a waiver should be considered.

Communications: Any communication concerning disputed debts, including checks or money orders tendered, must be sent to MVF, 10120 Apple Ridge Road, Montgomery Village, MD 20886-1000 Attention: Collections Department.

Approved by MVF Board of Directors – May 23, 2002.

Revised and Approved by MVF Board of Directors – October 23, 2003

Revised and Approved by MVF Board of Directors – October 28, 2004

Revised and Approved by MVF Board of Directors – March 24, 2005

Revised and Approved by MVF Board of Directors – September 27, 2007

Revised and Approved by MVF Board of Directors – October 23, 2008

Revised with new address, November 2010

Revised and Approved by MVF Board of Directors – June 28, 2012

Revised in accordance with CAB's ability to accept online Visa Payments – September 18, 2012

Approved by the MVF Board of Directors – October 2, 2014